

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**DOCUMENTATION OF THE FEDERAL FINANCIAL
SYSTEM PROCESS AT THE DEFENSE FINANCE AND
ACCOUNTING SERVICE INDIANAPOLIS CENTER**

Report No. 97-079

January 24, 1997

Department of Defense

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Acronyms

DFAS	Defense Finance and Accounting Service
FFS	Federal Financial System
KAR	Key Accounting Requirement



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884



January 24, 1997

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Audit Report on the Documentation of the Federal Financial System
Process at the Defense Finance and Accounting Service Indianapolis
Center (Report No. 97-079)

We are providing this audit report for review and comment. We performed the audit in response to the Chief Financial Officers Act of 1990 and the Federal Financial Management Act of 1994. Management comments on a draft of this report were considered in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. As a result of management comments, we revised the recommendation to recognize the change in systems. Therefore, we request that the Defense Finance and Accounting Service provide comments on the revised recommendation by March 25, 1997.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Ms. Mary Lu Ugone, Audit Program Director, at (703) 604-9529 (DSN 664-9529) or Ms. Dianna J. Pearson, Audit Project Manager, at (703) 604-9576 (DSN 664-9576). If management requests, we will provide a formal briefing on the audit results. See Appendix D for the report distribution. The audit team members are listed inside the back cover.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 97-079
(Project No. 6RE-2016.02)

January 24, 1997

Documentation of the Federal Financial System Process at the Defense Finance and Accounting Service Indianapolis Center

Executive Summary

Introduction. The audit was performed in compliance with the Chief Financial Officers Act of 1990 (Public Law 101-576) and the Federal Financial Management Act of 1994 (Public Law 103-356). Public Law 103-356 requires DoD and other Government agencies to prepare consolidated financial statements for FY 1996 and each succeeding year. The DoD Deputy Chief Financial Officer notified the DoD Components on June 6, 1995, of the requirement to prepare and submit financial statements in accordance with the Federal Financial Management Act of 1994.

In September 1994, the Defense Finance and Accounting Service (DFAS) transferred the responsibility for preparing the departmental accounting reports for Department 97¹ appropriations to the DFAS Indianapolis Center. The transfer was effective April 1, 1995.

Objectives. The overall audit objective was to evaluate the process for reporting Department 97 appropriations through the Federal Financial System (previously the General Ledger Accounting and Reporting System) at the DFAS Indianapolis Center. Specifically, we reviewed the Federal Financial System process the DFAS Indianapolis Center used to receive, adjust, and consolidate the general ledger trial balances on the Army Reserve portion of the National Guard and Reserve Equipment appropriation. We also evaluated management controls over the process the DFAS Indianapolis Center used to receive, adjust, and consolidate the general ledger trial balances received from fiscal stations.²

Audit Results. The DFAS Indianapolis Center process of receiving, adjusting, and consolidating the general ledger trial balances from fiscal stations is not documented as required by the DoD Financial Management Regulation. As a result, general ledger account balances cannot be readily and may not be effectively tested to ensure the reliability of financial statements required by the Chief Financial Officers Act of 1990 and the Federal Financial Management Act of 1994.

¹The Department of the Treasury uses department code "97" to identify appropriations for the Office of the Secretary of Defense. Defense agencies receive their funding from Department 97 appropriations. Military Departments can also receive Department 97 appropriations.

²The Army Reserve's two fiscal stations (finance and accounting offices) are the U.S. Army Military District of Washington and the Defense Accounting Office, St. Louis, Missouri.

Summary of Recommendation. We recommend that the DFAS Indianapolis Center document the process for receiving, adjusting, and consolidating the general ledger trial balances received from fiscal stations.

Management Comments. The DFAS Indianapolis Center nonconcurred with the draft report recommendation. The Federal Financial System will not be used to compile Department 97 trial balances for all Defense agencies and Defense appropriations. The DFAS Indianapolis Center stated that a new micro-based general ledger system will consolidate all Department 97 trial balances and that sufficient documentation exists within that new system to allow validation of the process used in compiling Department 97 trial balances for the DoD consolidated financial statements. See Part I for a summary of management comments and Part III for the complete text of the comments.

Audit Response. We recognize that the system the DFAS Indianapolis Center uses to receive, adjust, and consolidate general ledger trial balances has changed. However, the intent of our recommendation was to document the process regardless of the system used. Accordingly, we have revised our recommendation and request management comments on the revised recommendation by March 25, 1997.

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Part I - Audit Results

Audit Background

The audit was performed as part of the Chief Financial Officers Act of 1990 (Public Law 101-576), which established requirements for Federal organizations to submit audited financial statements to the Director, Office of Management and Budget. Public Law 103-356, "The Federal Financial Management Act of 1994," requires DoD and other Government agencies to prepare consolidated financial statements for FY 1996 and each succeeding year.

Department 97 Appropriations. In September 1994, the Defense Finance and Accounting Service (DFAS) transferred the responsibility for preparing the departmental accounting reports for Department 97¹ appropriations to the DFAS Indianapolis Center. The transfer was effective April 1, 1995. The Office of the Secretary of Defense allocates Department 97 appropriations to Defense agencies and the Military Departments. DoD fiscal stations² report general ledger trial balances to the DFAS Indianapolis Center. In the FY 1996 DoD consolidated financial statements, the Defense agencies and Military Departments will account for the Department 97 appropriations as "Other Defense Organizations."

DFAS Indianapolis Center. The DFAS Indianapolis Center provides finance and accounting support to the Army and the Defense agencies. The support includes maintaining departmental accounting records and preparing financial statements from both general ledger and status of appropriations financial data submitted by fiscal stations.

Federal Financial System. The Federal Financial System (FFS) (previously the General Ledger Accounting and Report System) receives, adjusts, and consolidates the general ledger trial balances received from fiscal stations. The fiscal stations can submit trial balances electronically, on diskette, or in hard copy.

The FY 1996 DoD Financial Statements. For FY 1996, the DFAS Indianapolis Center will be responsible for compiling the financial statements for the Army, the Defense Business Operations Fund, and Other Defense Organizations. In addition, the DFAS Indianapolis Center will consolidate the FY 1996 financial statements of the following nine DoD reporting entities:

- o Department of the Army,
- o Department of the Navy,

¹The Department of the Treasury uses department code "97" to identify appropriations for the Office of the Secretary of Defense. Defense agencies receive their funding from Department 97 appropriations. Military Departments can also receive Department 97 appropriations.

²Fiscal stations are finance and accounting offices.

- o Department of the Air Force,
- o Defense Business Operations Fund,
- o DoD Military Retirement Trust Fund,
- o National Defense Stockpile Transaction Fund,
- o Other Defense Organizations,
- o U.S. Army Corp of Engineers, and
- o Defense Security Assistance Agency.

New Finance and Accounting Systems. The DFAS concept for future operations includes improving, modifying, and implementing standard migratory finance and accounting systems³ throughout DoD. DFAS plans to achieve a rapid reduction in the number of accounting systems by selecting interim migratory systems to replace legacy systems.⁴ DFAS has implemented this incremental approach to reduce the risks and costs of developing systems. With this strategy, DFAS intends to overcome fundamental accounting problems, such as the lack of a standard general ledger, lack of a common budget and accounting classification code, inadequate costing methods, lack of full property accounting, and inadequate documentation. The FFS process the DFAS Indianapolis Center uses to receive, adjust, and consolidate general ledger trial balances will eventually be incorporated into a new system.

Audit Objectives

The overall audit objective was to evaluate the process for reporting Department 97 appropriations through the FFS at the DFAS Indianapolis Center. Specifically, we reviewed the FFS process the DFAS Indianapolis Center used to receive, adjust, and consolidate the general ledger trial balances on the Army Reserve portion of the National Guard and Reserve Equipment appropriation. We also evaluated the DFAS Indianapolis Center management controls over the process used to receive, adjust, and consolidate the general ledger trial balances received from fiscal stations. See Appendix A for a discussion of the audit scope and methodology and the review of the management control program.

³Existing or planned and approved automated information systems that have been designated to support a functional process on a DoD-wide basis.

⁴Automated information systems that are candidates for phaseout, upgrade, or replacement, usually because a system does not comply with data standards or other standards.

Documentation of the Federal Financial System Process

The FFS process the DFAS Indianapolis Center uses for receiving, adjusting, and consolidating Department 97 general ledger trial balances received from fiscal stations is not documented. The process is not documented because the DFAS Indianapolis Center did not follow Key Accounting Requirement 10, in DoD 7000.14-R, "Financial Management Regulation," to document a system's processes and procedures. As a result, general ledger trial balances for Department 97 appropriations, which totaled \$37 billion for 30 Defense organizations for FY 1995, cannot be readily and may not be effectively tested to ensure the reliability of financial statements required by the Chief Financial Officers Act of 1990 and the Federal Financial Management Act of 1994.

System Documentation

DoD 7000.14-R, "Financial Management Regulation" (the Regulation), volume 1, "General Financial Management Information, Systems, and Requirements," May 1993, requires that all DoD accounting systems comply with Key Accounting Requirement (KAR) 10 to maintain detailed system documentation.

Key Accounting Requirement 10

The KAR 10 (see Appendix B for the complete text) requires detailed and comprehensive documentation that shall include a combination of the following:

- o narrative description of the system,
- o descriptions of processes,
- o diagrams,
- o flowcharts,
- o tables,
- o interfaces with other systems,
- o basic accounting entries,

- o adjusting and closing entries,
- o sample source documents,
- o sample outputs and reports, and
- o internal controls incorporated in the system.

According to the Regulation, the system documentation shall demonstrate readily to users, auditors, and evaluators the system's conceptual processes and procedures. The documentation should also be in good order to facilitate transaction testing.

System Documentation Needed for the Federal Financial System

The DFAS Indianapolis Center has not documented the FFS process used for receiving, adjusting, and consolidating the monthly general ledger trial balances submitted by fiscal stations for Department 97 appropriations. Not documenting that process constitutes a material noncompliance with KAR 10. The Regulation states that a material noncompliance with a KAR requires corrective action within a reasonable period.

We tracked general ledger account balances from the general ledger trial balances the Army Reserve's two fiscal stations³ submitted for the FY 1995 Army Reserve portion of the National Guard and Reserve Equipment Appropriation. DFAS Indianapolis Center personnel omitted pertinent financial information in preparing the FY 1995 Army Reserve trial balance for the National Guard and Reserve Equipment Appropriation. Pertinent financial information was omitted because the DFAS Indianapolis Center did not have documented procedures for checking the completeness of the financial data extracted from the FFS for Department 97 appropriations. As a result, expenses on the FY 1995 trial balance were understated and, on the FY 1996 financial statements, equity will be overstated by \$70.1 million. (Details are provided in Inspector General, DoD, Report No. 97-025, "Consolidated Financial Report on the National Guard and Reserve Equipment Appropriation for the Army Reserve," November 19, 1996.)

The DFAS Indianapolis Center uses the FFS process to receive, adjust, and consolidate the Army Reserve general ledger trial balances for all Department 97 appropriations. In FY 1995, 30 Defense organizations received \$37 billion in Department 97 appropriations. The DFAS Indianapolis Center will receive, adjust, and consolidate general ledger trial balances for those Defense organizations.

³The U.S. Army Military District of Washington and the Defense Accounting Office, St. Louis, Missouri.

Documentation of the Federal Financial System Process

The DFAS Indianapolis Center should document the FFS process as required by KAR 10. At a minimum, the DFAS Indianapolis Center should develop the following documentation to help ensure the reliability of the consolidated statement, "Other Defense Organizations."

- o A narrative description of FFS. Specifically, a narrative description of the FFS process for receiving, adjusting, and consolidating the general ledger trial balances submitted by fiscal stations for Department 97 appropriations.

- o A flowchart showing the flow of financial data through FFS.

- o A list and description of the edit tables that are used to validate the integrity of the financial data on the general ledger trial balances submitted by fiscal stations. The documentation should include the sources of the edit tables.

- o A table showing the Defense agencies and appropriations that should be reported in "Other Defense Organizations" in the FY 1996 consolidated financial statements. Inspector General, DoD, Report No. 97-017, "Consolidated FY 1995 Financial Report on Defense Organizations Receiving Department 97 Appropriations," October 31, 1996, states that the DFAS Indianapolis Center did not have management controls in place to ensure that all Department 97 appropriations were reported in FY 1995. The report also states that about \$820 million of FY 1995 funding was not included in the adjusted trial balances.

- o A list and description of the types of adjusting entries made to the general ledger trial balances submitted by fiscal stations for Department 97 appropriations.

- o A description of FFS interfaces with other financial systems. Other financial systems would include the Departmental Budgetary Accounting and Reporting System and the Expenditure System.

- o A list and description of the process for making adjusting entries.

- o A description of the process for consolidating the general ledger trial balances reported by fiscal stations for Department 97 appropriations on the financial statements. Specifically, document the Department 97 general ledger account balances from the general ledger trial balances that are used to construct line items on the financial statements.

- o Examples of source documents that are used for FFS.

- o Examples of outputs and reports from FFS.

- o A description of the internal controls and safeguards in FFS.

The above list is not all inclusive. The DFAS Indianapolis Center should document all the FFS processes and procedures to prepare the Department 97 general ledger trial balances for the consolidated statement, "Other Defense Organizations." Without the documentation, general ledger account balances

cannot be readily and may not be effectively tested, and DoD cannot assure the reliability of its consolidated statement, "Other Defense Organizations" for FY 1997.

Conclusion

Documenting the FFS processes and procedures will assist the DFAS Indianapolis Center in evaluating its process for receiving, adjusting, and consolidating the Department 97 general ledger trial balances received from all fiscal stations. Additionally, documenting the procedures will assist internal and external auditors in performing substantive audit tests of the general ledger accounts.

Recommendation, Management Comments, and Audit Response

Revised Recommendation. As a result of management comments, we revised the recommendation to recognize the change in systems at the DFAS Indianapolis Center.

We recommend that the Director, Defense Finance and Accounting Service, Indianapolis Center, thoroughly document the process for receiving, adjusting, and consolidating Department 97 general ledger trial balances and other financial information used to produce consolidated financial statements; document the process for making Departmental adjustments after consolidation; and update the documentation as processes and systems evolve and change, as required by Key Accounting Requirement 10 in DoD 7000.14-R, "Financial Management Regulation," volume I, "General Financial Management Information, Systems, and Requirements," May 1993.

Management Comments. The DFAS Indianapolis Center nonconcurred with the draft report recommendation. The FFS will not be used to compile Department 97 trial balances for all Defense agencies and Defense appropriations. The FFS will process only Department 97 trial balances for Department 97 funds allotted to the Army, because modifying the FFS to accommodate Department 97 trial balance submissions for Defense agencies and Defense appropriations is considered to be cost-prohibitive. The DFAS Indianapolis Center stated that a new micro-based general ledger system will consolidate all the Department 97 trial balances for Defense agencies and Defense appropriations. The DFAS Indianapolis Center stated that sufficient documentation exists within the new micro-based general ledger system to give auditors the capability of validating the process used in compiling the "Other Defense Agencies" portion of the DoD consolidated financial statements.

Documentation of the Federal Financial System Process

Audit Response. As a result of the management comments, we revised our recommendation to recognize the need to thoroughly document a new, dynamic, and evolving process. Accordingly, we request that the Director, DFAS Indianapolis Center, provide additional comments describing their plan to document the processes used to produce consolidated financial statements by March 25, 1997.

Part II - Additional Information

Appendix A. Audit Process

Scope and Methodology

Scope. We reviewed the FFS process at the DFAS Indianapolis Center, and we attempted to review the system documentation for the FFS to determine whether the system documentation met the requirements of KAR 10. We also reviewed the FFS to understand the compilation process for Department 97 appropriations. We performed the review during our audit of the Consolidated Financial Report on the National Guard and Reserve Equipment Appropriation for the Army Reserve (Project No. 6RE-2016.00). The audit was performed as part of the Chief Financial Officers Act of 1990 (Public Law 101-576), which established requirements for Federal organizations to submit audited financial statements to the Director, Office of Management and Budget. Public Law 103-356, "The Federal Financial Management Act of 1994," requires DoD and other Government agencies to prepare consolidated financial statements for FY 1996 and each succeeding year.

Methodology. We reviewed the FFS process the DFAS Indianapolis Center used to receive, adjust, and consolidate Department 97 general ledger trial balances received from fiscal stations. We specifically reviewed the process the DFAS Indianapolis Center used to receive, adjust, and consolidate the general ledger trial balances submitted by the Army Reserve's two fiscal stations, the U.S. Army Military District of Washington and the Defense Accounting Office, St. Louis, for the Army Reserve portion of the National Guard and Reserve Equipment Appropriation. For FY 1995, the Army Reserve received \$133 million in Department 97 appropriations. We tracked general ledger account balances from the fiscal stations to the FY 1995 Army Reserve trial balance for the National Guard and Reserve Equipment Appropriation. The DFAS Indianapolis Center also used the FFS to process Department 97 appropriations totaling \$37 billion for 30 Defense organizations in FY 1995.

Use of Computer-Processed Data. We did not rely on computer-processed data because our review was to evaluate the process used by the DFAS Indianapolis Center to receive, adjust, and consolidate the general ledger trial balances received from fiscal stations.

Audit Period, Standards, and Locations. We performed this financial-related audit from March through October 1996 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. Accordingly, we included such tests of management controls considered necessary. Appendix C lists the organizations we visited or contacted.

Prior Audits and Other Reviews. No prior audits or other reviews have been performed on FFS documentation for receiving, adjusting, and consolidating general ledger trial balances at the DFAS Indianapolis Center.

Management Control Program

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, requires DoD organizations to implement a comprehensive strategy for management controls that provides reasonable assurance that revenues and expenditures applicable to DoD operations are properly recorded and accounted for to permit preparation of accounts and reliable financial reports. DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, requires each DoD Component to develop a management control program that establishes the management control process; segments the organization into assessable units; and evaluates, identifies, and reports on management control weaknesses. The Directive also states that specific DoD policies for evaluating accounting system controls are in DoD 7000.14-R, "Financial Management Regulation," volume 1, chapter 3, May 1993. DoD 7000.14-R requires accounting system managers to perform annual reviews of accounting system controls to determine compliance with the key accounting requirements specified in the Regulation.

Scope of Review of the Management Control Program. We evaluated management controls over the process the DFAS Indianapolis Center used to receive, adjust, and consolidate the Department 97 general ledger trial balances from fiscal stations. Specifically, we reviewed the process the DFAS Indianapolis Center used to receive, adjust, and consolidate the general ledger trial balances that two Army Reserve fiscal stations submitted for the National Guard and Reserve Equipment Appropriation.

Adequacy of Management Controls. We identified a material management control weakness, as defined by DoD Directive 5010.38, at the DFAS Indianapolis Center. The DFAS Indianapolis Center management controls for documenting FFS were not adequate to ensure that requirements in KAR 10 were met. Details are in the finding. The report recommendation, if implemented, will correct the weakness.

Adequacy of Management's Self-Evaluation. Management's self-evaluation was not adequate to detect and report the material management control weakness related to documenting the FFS process. The DFAS Indianapolis Center did not identify the process of documenting the FFS as an assessable unit in its management control plan and, therefore, did not identify the material weakness identified by the audit.

Appendix B. Key Accounting Requirement 10-System Documentation

DoD 7000.14-R, "Financial Management Regulation," volume 1, May 1993, requires system documentation. The following paragraph is the complete text of KAR 10-System Documentation.

The accounting system must have adequate documentation which must include interfaces between accounting system segments. The detailed accounting system design package shall adequately document the functional user's accounting requirements. Such documentation must be available in user manuals, subsystem specifications, etc. The detailed documentation must be comprehensive and shall include a combination of descriptions of processes; flowcharts and narrative description; diagrams; basic accounting entries; including adjusting and closing entries; illustrations or samples of source documents for input; and sample outputs and reports. It shall also include internal controls incorporated within the accounting system. The documentation must demonstrate conformance with the DoD Financial Management Regulation and other DoD requirements for adequate and reasonable documentation. The system documentation shall be in enough detail to be understood by computer personnel and system accountants assigned to develop applicable software. It shall demonstrate readily to users, auditors, and evaluators the system's conceptual processes and procedures. The documentation should be in good order to facilitate maintenance operations and transaction testing. Good documentation would permit transaction testing, which is designed to disclose whether valid transactions are processed properly, and whether the system rejects invalid transactions. The documentation shall have enough detail that a testing of the system could cover an entire transaction, from initial authorization through processing, posting to the accounts, and reporting. The documentation should indicate the mission, organization, description, objectives, financial management requirements, and boundaries of the system.

Appendix C. Organizations Visited or Contacted

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller), Washington, DC

Department of the Army

Office of the Assistant Secretary of the Army (Financial Management and
Comptroller), Washington, DC

Office of the Chief, Army Reserve, Washington, DC

United States Army Reserve Command, Atlanta, GA

Army Materiel Command, Alexandria, VA

Military District of Washington, Alexandria, VA

Auditor General, Department of the Army, Washington, DC

Other Defense Organizations

Defense Finance and Accounting Service, Arlington, VA

Defense Finance and Accounting Service Indianapolis Center, Indianapolis, IN

Defense Accounting Office, St. Louis, MO

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Assistant to the Secretary of Defense (Public Affairs)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency
Director, National Security Agency
Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division,
General Accounting Office

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal
Justice, Committee on Government Reform and Oversight
House Committee on National Security

Part III - Management Comments

Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22240-5291

DFAS-HQ/AFB

DEC 24 1996

MEMORANDUM FOR DIRECTOR, READINESS AND OPERATIONAL SUPPORT
DIRECTORATE OFFICE OF THE INSPECTOR GENERAL,
DEPARTMENT OF DEFENSE

SUBJECT: Response to DoD Inspector General, DoD Audit
Report, "Documentation of the Federal Financial System
Process at the Defense Finance and Accounting Service,
Indianapolis Center" (Project No. 6RE-2016.02)

We have reviewed the subject audit and are providing the
attached comments. Please direct any questions concerning this
matter to Mr. Charles McIntosh, (703) 607-5105 or E-Mail
cmcintosh@cleveland.dfas.mil

A handwritten signature in dark ink, appearing to read "Tom" or "T. McCarty".

Thomas F. McCarty
Deputy Director for
Accounting

Attachment

SUBJECT: Response to DoD Inspector General, DoD Audit Report, "Documentation of the Federal Financial System Process at the Defense Finance and Accounting Service, Indianapolis Center" (Project No. 6RE-2016.02)

RECOMMENDATION. That the Director, Defense Finance and Accounting Service Indianapolis Center, document the Federal Financial System process for receiving, adjusting, and consolidating Department 97 general ledger trial balances received from fiscal stations, as required by Key Accounting Requirement 10 in DoD 7000.14-R, "Financial Management Regulation," Volume 1, "General Financial Management Information, Systems, and Requirements," May 1993.

Management comments. Nonconcur, with the recommendation as written. The Federal Financial System (FFS) will not be used to compile trial balances for all Defense Agencies. The FFS is used to receive, adjust, and consolidate trial balances for Army managed funds. FFS will only process Treasury Index (TI) 97 trial balances relating to funds that have been allotted to Army. The TI 97 trial balances will then be passed from FFS to a new micro based general ledger system that will consolidate all TI 97 trial balances. The FFS is an off-the-shelf general ledger software package that received approval by the General Accounting Office. The FFS system documentation is comprised of manuals developed by the vendor and supplemented by System Change Requests (SCRs) prepared by DFAS-Indianapolis. While no modifications have been made to the FFS core programs, SCRs were developed to provide FFS users more flexibility in the DoD operating environment. The SCRs, along with the original FFS documentation, provide sufficient audit trails that can be used to review inputs/outputs and to gain assurances that data is being compiled correctly.

Modifying the FFS to accommodate trial balance submissions for all Defense Agencies was considered to be cost prohibitive. Instead, a micro-based general ledger program had to be developed to receive, edit and consolidate TI 97 trial balance submissions. As in the case of FFS, the micro-based general ledger application for TI 97 has access only to the reported summary general ledger values. Supporting subsidiary ledger data will continue to be maintained by the field level accounting systems. Sufficient documentation exists within the new micro based system to provide auditors the capability of validating the process (field reported data plus departmental level adjustments) used in compiling the "Other Defense Agencies" column of the DoD-wide consolidated financial statements. We will continue to document modifications to our TI 97 general ledger system in the future.

We strongly disagree with the comment on page 8, that "Without the documentation, general ledger account balances cannot be readily and may not be effectively tested and DoD

Defense Finance and Accounting Service Comments

cannot assure the reliability of its consolidated statement, "Other Defense Organizations" for FY 1997." This implies that any perceived lack of documentation on a departmental level general ledger system would, in and of itself, provide a basis for a disclaimer in FY 1997. We agree that there should be improved system documentation. However, auditors currently have the tools available to audit both through and around the micro based general ledger system to determine the accuracy of the compilation process.

Audit Team Members

This report was prepared by the Readiness and Operational Support Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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